Market Update – May 2024

Asset class total return to 31/05/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.3	2.4	1.7	4.4
Fixed Term Deposits	0.4	1.2	2.5	4.8	2.6	2.1	4.7
Australian Bonds	0.4	-0.5	2.1	0.9	-2.1	-0.5	4.6
Australian Bank Hybrids	-1.0	1.2	2.8	7.3	3.6	3.5	5.1
Australian Property	1.9	3.1	21.8	23.4	7.6	5.4	3.7
Australian Shares	0.9	1.2	10.7	12.9	6.8	7.8	3.7
Global Shares (unhedged)	2.0	1.7	14.6	21.7	12.3	13.8	1.9
Global Infrastructure (hedged)	5.0	6.8	7.6	6.8	3.1	3.3	3.8

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50 hedged TR.

Financial Indicator movement	31/05/24	1M	3M	6M	1Y
AUD/USD (cents)	0.67	0.02	0.02	0.00	0.01
Aust. 10-year bond yield (%)	4.41	-0.01	0.26	0.02	0.81
Gold US$/ounce	2,327	1.8%	13.9%	14.3%	18.3%
Brent oil US$/bbl	82	-7.1%	-2.4%	-1.5%	13.9%
Iron ore US$/t	118	6.3%	-5.6%	-9.2%	12.4%
Copper US$/pound	4.61	1.0%	20.2%	20.4%	27.0%

Source: Refinitiv. Note: Past performance is not a reliable indicator of future performance.

Global

Interest rates are officially easing in the developed world, with the Bank of Canada (BoC) and the European Central Bank (ECB) recently cutting the cash rate for the first time since the COVID pandemic. The US Federal Reserve (the Fed) is expected to follow suit in September/October. The BoC cut the cash rate to 4.75% (from 5.0%), while the ECB cut the cash rate to 3.75% (from 4.0%). The Fed is currently at 5.35%.

Inflation isn't quite back to target (2.0%) as yet, but Central Banks are increasingly confident that the trend is down. The recent fall in the oil price below US$80/bbl would only add to that confidence.

With cash rates expected to ease, bond yields are also retreating, which is a positive development for growth assets (equities, property, infrastructure). Lower bond yields reduce the discount rates used to value growth assets and also reduce the cost of debt. Indeed, we note that global infrastructure is starting to rebound, following in the footsteps of equities and property.

Commodities have recently retreated from a rally earlier this year. We remain cautious on oil, in the short term, but remain positive towards the metals required for the energy transition (copper, aluminium, nickel, lithium and rare earths). Oil seems to be retreating because OPEC is reluctant to keep cutting production to support the oil price, as it is losing market share to non-OPEC producers (US, Canada, Brazil, Guyana, Africa). In addition, global demand has been weaker than expected.

On the horizon is the US Presidential election, which is due November 5. Despite Donald Trump's recent criminal conviction, he is still polling at 45% vs Joe Biden at 44%. The election result could have major implications for the US budget deficit and US foreign policy.

Australia

The Australian economy slowed to a crawl in the March 2024 quarter, with quarterly growth of 0.1% and annual growth of 1.1%. However, growth is still positive, and unemployment remains generally low at 4.0%.

The main problem is inflation continues to prove stubborn, with inflation surprisingly rising to 3.6% (from 3.5%) in April. The market had expected a fall to 3.4%. This has led to the market expecting no rate cuts this year from the RBA, which meets again on 17-18 June.

The outlook for inflation is complicated. Weakening demand and a retreating oil price should help reduce inflation but Federal and State governments continue to offer fiscal stimulus via tax cuts, infrastructure spending and various subsidies.

It does seem likely that Australia will have to wait longer (perhaps six months longer) than the G7 countries before the RBA can ease interest rates. It is this scenario that leads us to expect a rally in the AUD/USD, as global interest rates come down.

Outlook

Interest rates are starting to ease in the developed world. The recent retreat in the oil price should help inflation retreat to target over FY25. The US seems likely to ease interest rates in the next six months, while Australia should follow in 2025.

The soft-landing scenario seems likely, and a cyclical recovery should begin in 2025. Company earnings should recover as revenue growth returns and expense growth slows. Balance sheets generally remain strong. Financial markets are forward looking and hence we retain our bullish outlook, which we have held since late 2023.

The next key events on the calendar include:

- US Federal Reserve meeting – 11/12 June 2024
- US inflation (May) – 12 June 2024
- RBA meeting – 17/18 June 2024
- Australian inflation (May) – 26 June 2024

Bill Keenan

Principal, Portfolio Manager

Bill Keenan is the founder of Sunbird Portfolios. Sunbird provides independent advice to leading financial advisers across Australia.

Bill has 30 years' experience in financial markets and holds a Bachelor of Business in Accounting and a Graduate Diploma in Finance and Investment.

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Date issued: Friday, June 7, 2024

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W www.sunbirdportfolios.com.au

E support@sunbirdportfolios.com.au

M 0403534426

T 03 8840 7886

A Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000